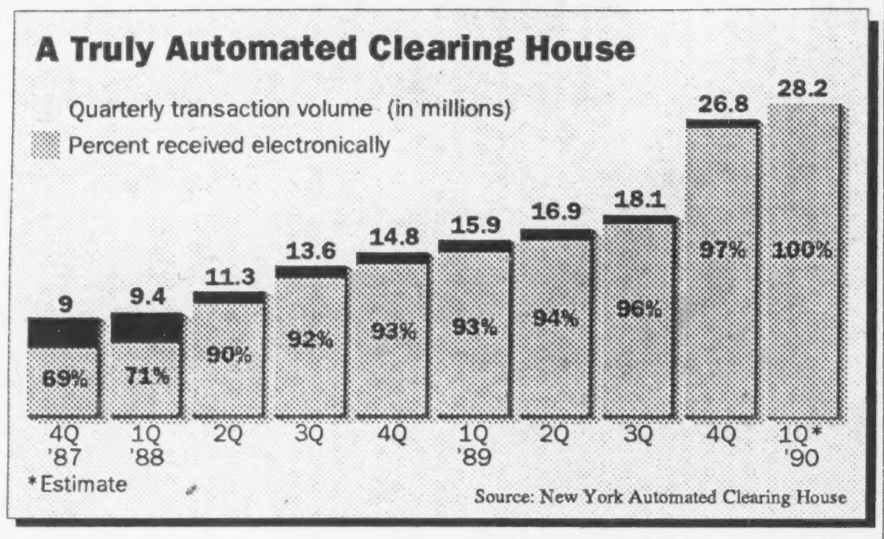
TECHNOLOGY NEWS

NY Clearing House Goes All-Electronic

Move Will Cut Processing Fees



By RICHARD LAYNE

NEW YORK — Capping a two-year effort, the New York Automated Clearing House has become a completely electronic operation and the first of the regional clearing houses to fully automate its transaction processing.

The New York clearing house, the third-largest processor of paperless transactions in the national ACH network, said this week that it has achieved full automation of financial transactions, cutting processing costs for its banking customers to the bone. The New York group has thus opened the door to an all-electronic clearing house network, which the Federal Reserve System said could attract more business through a relaxed deposit schedule.

Technology 'Essential'

"Effective use of computer and communications technology is essential to accommodating growth and maintaining efficiency in modern banking," said John F. Lee, president of the New York Clearing House Association, parent of the automated clearing house.

"One hundred percent electronic status is the ultimate goal for an automated clearing house," he said.

While the New York clearing house announced full electronic service this week, it actually finished the conversion of its depository institutions at the end of 1989. As of Jan. 2, the clearing house no longer processes automated clearing house transactions delivered via paper or magnetic tape.

The all-electronic operation has cut the cost of a transaction down to "pennies," said William M. Walsh, senior vice president at the New York Clearing House.

Mr. Lee said, "I don't see how we could get much lower."

Improved Security

Full electronic service has benefits beyond lowered operating costs for the the 793 banks and credit unions that use the clearing house. "Electronic funds transfer is the most secure, timely, and reliable delivery mechanism," said Mr. Walsh.

The big banks in the New York clearing house converted to electronic processing early in the two-year plan. Mr. Lee said that the past year was devoted to convincing smaller institutions to receive payments via a personal computer and phone lines, instead of magnetic tape or paper.

"The technology is simple, but they had to be persuaded," said Mr. Lee.

1991 Targeted

In June 1989, the board of directors of the National Automated Clearing House Association urged the Federal Reserve Board to establish June 1991 as a target date for the conversion of the entire ACH network to an all-electronic operation.

"The long-term gains in efficiency more than outweigh the short-term expenses, both for participants and automated clearing houses," said Mr. Walsh.

No target date has been set so far by the Federal Reserve, although it concurs with the all-electronic goal. "The Federal Reserve has indicated that it plans to aggressively pursue the concept of an all-electronic automated clearing house," said Richard Oliver, product manager for electronic payment services at the Federal Reserve.

Later Deadlines Ahead?

The Fed believes that a network of all-electronic clearing houses may allow it to offer later deposit deadlines to accommodate more transactions through the nationwide clearing house network, which handles more than one billion government and private-sector items a year.

The current deposit schedule requires that a bank enter an ACH credit into the system as many as two days before payment is due. That early deposit schedule, which allows time for paper and magnetic-tape entries to be delivered by truck, discourages some corporations from using the automated clearing houses.

Mr. Oliver said that the Federal Reserve will officially release for use nationwide three software products to facilitate the move by financial institutions to full electronic funds transfer. □

In Wake of AT&T Mess, Banks Reexamine Strategy

By KAREN GULLO

NEW YORK — Bankers are rethinking strategies for protecting their communications networks against failures as a result of the major disruption of AT&T long-distance service on Monday.

Communications is the lifeblood of many bank services and operations, such as credit card processing and customer service.

While most banks were not affected by the problems because they were closed for the Martin Luther King holiday, many are examining safety features to determine whether they can continue to operate during a severe outage.

Confidence Shaken

The recent outage, caused by a software glitch in AT&T switching equipment, blocked thousands of long-distance calls from being completed for nine hours. Confidence in the reliability of AT&T's network among bankers has been severely shaken as a result.

"It was quite eye-opening," said Patricia Farwig, vice president of information processing at Mellon Bank, Pittsburgh. "We're going back through all of our locations and confirming that backup exists.

"We want to make sure that our hardware is upgraded for equal access to both of our long-distance companies," she said. Mellon uses services from both American Telephone and Telegraph Co. and MCI Communications Corp. The bank was unaffected by the outage because of its two-carrier approach and because of the holiday.

Some Unprepared

Many other banks were also able to continue business as usual because they use more than one long-distance company. But not all businesses were prepared.

First Data Resources, Omaha, a bank-card processing company owned by American Express Co., uses three long-distance companies. But two services – point-of-sale transactions and voice authorizations for credit cards – use only the AT&T network and were severely impaired by Monday's disruption.

Ed Koch, director of telecommunications operations, said the company now believes it must have a backup network.

"But the problem is how to implement that," he said. "It's not a trivial matter. We want to publish a single authorization number for our merchants. If we use another service, we'll have to publish more than one number."

Some bankers are rethinking plans to switch from private dedicated networks to a service known as virtual networking, where customers' communications share a portion of the public long-distance network. Virtual networking, offered by all long-distance companies, can be much less expensive than private networks because the customer does not have to bear the costs of maintaining dedicated telephone lines. Another big selling point for virtual networks has been the reliability of the public phone network.

This week's disruption "destroys that argument," said Ms. Farwig. "You really need a mixture of services."

Henry Watkins, assistant vice president for telecommunications at Boatmen's Bank, St. Louis, said the bank has been reviewing virtual networking as an alternative to its current private network. He said Boatmen's would not use a virtual network as its only form of communications. "If I was looking at it as a total replacement, what happened this week would make me a little uneasy," he said. □

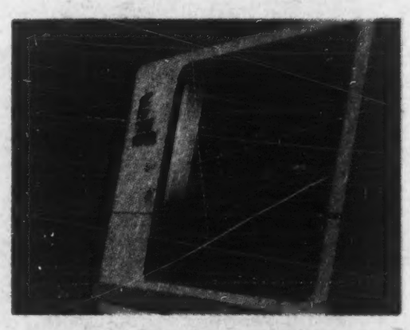
INTRODUCING BEACON.℠ RISK ASSESSMENT SO ACCURATE IT WILL CHANGE THE WAY YOU DO BUSINESS.

For more information, call your local CBI representative or 404-885-8209.

BEACON℠

EQUIFAX The Information Source CREDIT INFORMATION SERVICES

©1989, The Credit Bureau, Incorporated of Georgia. Beacon is a service mark of The Credit Bureau, Incorporated of Georgia.



"Quality is a Diebold tradition. Because our #1 priorities are quality and reliability, Diebold ATMs and systems perform to a level unmatched in the industry. Everyone at Diebold is dedicated to assuring you of 99% or better consumer availability of our machines. And I personally stand behind that commitment."

Robert P. Barone
President
DIEBOLD®

COMMENT/*By A. Thomas Loy*

Hard Dollars Go Further In Paying for Bank Services

Soft-dollar (implicit) pricing arrangements are seldom a justifiable substitute for hard-dollar (explicit) payments. In soft-dollar arrangements, idle balances left on deposit with a financial institution serve to compensate for correspondent-related services like check processing, data processing, safekeeping, loan participations, and wire transfers.

These services are periodically assigned an earnings credit, usually based on the prevailing federal funds rate, which determines the amount of balances necessary to compensate for the services. In contrast, traditional hard-dollar payments are made monthly by check or wire transfer.

Soft-dollar payments have a long and controversial history in commercial banking. Correspondent banks traditionally made bank stock loans (that is, loans to individuals to purchase controlling interest in a bank) at an interest rate substantially lower than prevailing market rates.

The low interest rate was offset by noninterest-bearing compensating balances maintained at the lending bank by the purchased bank. This practice surreptitiously caused a portion of the loan's interest to be paid indirectly by the bank's minority stockholders (who obviously had no desire to assist in the financing of the buyer's stock), and was prohibited under the Financial Institutions Regulatory Act of 1978. Such arrangements, however, are still practiced clandestinely.

In today's deregulated and oversaturated financial services industry, to choose soft-dollar payments is to render part of the bank's due-from banks into a de facto earning asset – and not a very good one at that.

Independent of the issue of reserve requirement maintenance, a soft-dollar, or compensating, balance brings virtually none of the benefits – such as liquidity for loan demand or deposit attrition – of the money market instruments of which it is a facsimile. Soft-dollar balances produce an inadequate yield and do not justify capitalization.

A bank opting for soft-dollar payment is exempted from being assessed a reserve requirement in its own computation, because a deduction is allowed for due-from banks' balances. However, if the downstream bank is subject to a 3% reserve requirement, rather than the upstream due-from bank's typical 12% reserve requirement, then the downstream bank incurs a de facto 9% reserve requirement penalty assessed by the upstream bank.

'Soft-dollar payments have a long and controversial history in commercial banking.'

Hard-dollar payment bypasses this intrinsic account analysis penalty, thus more than offsetting the benefits, if any, of soft-dollar payment. It even offsets a hard-dollar surcharge, if one exists, of up to 9.89%.

The benefit of eliminating this account analysis penalty is independent of the underlying earnings analysis rate, and therefore is valid regardless of the prevailing federal funds rate (assuming that to be the basis for the earnings rate).

Time Value Is Factor

Besides the reserve requirement benefit, the time value of money also adds to the preferability of hard-dollar payments. The hard-dollar payment is not made until after the end of the month, and the soft-dollar payment is typically made via a fairly constant average daily balance in the account.

Therefore, the hard-dollar method benefits from the compounded earnings on the amount of the soft-dollar balance, as well as the additional, though nominal, compounded earnings on the hard-dollar payment itself for whatever length of time after the end of the month until the payment is due.

Earnings Rate Is Marginal

It should be noted that when compounding is considered, the earnings rate emerges as a fairly insignificant variable.

Assuming an earnings analysis rate of 5% and a reserve requirement penalty of 9%, the compounded hard-dollar benefit is equal to 9.91% of the amount of the hard-dollar charge. Assuming an earnings analysis rate of 20% and the same reserve requirement penalty of 9%, the compounded hard-dollar benefit is equal to 10.36% of the amount of the hard-dollar charge.

For example, with a $1,000 hard-dollar charge (assuming no surcharge for hard-dollar payment) and a compounded 20% fed funds analysis rate, the saving realized from opting for hard rather than soft dollars is $103.60.

This compares with a similar saving of $99.10 for a compounded 5% fed funds analysis rate, and with an uncompounded saving, independent of the earnings analysis rate, of $98.90. □

Mr. Loy is a banking consultant based in Oklahoma City.

AMERICAN BANKER

Established 1836
One State Street Plaza, New York, N.Y. 10004
212-943-6700

Editor: Fred R. Bleakley
Managing Editor: Thomas J. Ferris
Asst. Managing Editor: Jeffrey Kutler
Washington Bureau Chief: Robert Trigaux
News Editor: Eric M. Starkman
Features Editor: Patricia Stundza
Copy Desk Chief: Domenica Trevor
Art Director: Pamela Budz Moriarty
Statistics Editor: L. Michael Cacace

Senior Columnist: Sanford Rose

STAFF WRITERS
Consumer Financial Services: Wendy Grover, Yvette D. Kantrow, Ellen Memmelaar
Finance: Caren Chesler-Marsh, John Forde, Kelley Holland, Gordon Matthews, David Neustadt, Lisabeth Weiner
International: James R. Kraus
Technology and Operations: Karen Gullo, Richard Layne
Mortgages: Phil Roosevelt

BUREAUS
Washington: Bill Atkinson, Robert M. Garsson, Jim McTague, Barbara A. Rehm. 202-347-5529
Atlanta: Kenneth Cline (bureau chief). 404-364-6572
Chicago: Nanine Alexander (bureau chief). 312-663-6380
Dallas: Steve Klinkerman (bureau chief). 214-748-5666
Los Angeles: Teresa Carson (bureau chief). 213-627-0953
Northeast: Jed Horowitz (bureau chief), Tom Leander, Franklin Smith. 212-943-6700
San Francisco: Sam Zuckerman (bureau chief). 415-986-8705
London: John Evans (bureau chief). 011-441-538-5959

COPY EDITORS
Winnie O'Kelley (assistant chief), Christine Arax, Terry Bormann, Edward Kulkosky, Robert Paul Molay, Howery Pack, Jane Sandiford

ART
Dylan Kreuzer (assistant director), Peggy Turbett, Carl Zeichner

FEATURES
Suzanne Christy, Judy Ferring (assistan editors)

STATISTICS
Harvey Glassman, John Ferring

Contributing Editor: Paul S. Nadler
Editorial Assistants: Lenore Adams, Jackie Albritton, Matthew H. Barthe, Rita Kay Meyer, Lou Schwartz

President: George W. Landgrebe
Executive Vice President Business Services - Con A. Rusling
Senior Vice President, Advertising - Gerald L. Taylor
Vice President, Circulation - Madeline Krakowsky
Production Manager - Erwin W. Hambright

ADVERTISING
New York: 212-943-5280
Chicago: 312-663-6390
San Francisco: 415-421-7950
Los Angeles: 213-382-6346
Charlotte, N.C.: 704-522-7181
Classified: 800-221-1910
International: 212-943-4250
Telex: 421768 ABKR

The American Banker is published daily, except weekends and holidays.

©1990 by American Banker • Bond Buyer, a division of International Thomson Publishing Corporation. All rights reserved.
"American Banker" is a registered trademark of American Banker • Bond Buyer. Registered in the U.S. Patent and Trademark Office.
Second Class Postage Paid at new York, N.Y., and at additional mailing offices in U.S.A.
(ISSN No. 0002-7561)
Postmaster: Send address changes to American Banker, One State Street Plaza, New York, N.Y. 10004
Subscription Rates: U.S. $635 a year, Canada $815. Canada Airmail and Foreign $1,120. Single copy $5.75
Telecopier: 212-943-2222

Photocopy and Reprint Permission
Those registered with the Copyright Clearance Center (21 Congress St., Salem, Mass., 01970) have permission to photocopy any article owned by American Banker • Bond Buyer. The fee is $2 per copy of each article.
Copying for other than personal use or internal reference is prohibited without express permission of the copyright owner. Copying of article or columns not owned by the American Banker • Bond Buyer is also prohibited.
Single copies available day of publication: $5; back-issue prices based on date of publication. Address requests for reprints or back issues to American Banker • Bond Buyer, One State Street Plaza, New York, N.Y. 10004, or call 212-943-4845.

Customer Service
For subscription orders, changes in address, help with late delivery, or to report unsatisfactory service, call 800-221-1809 (in New York State, call 212-943-9589 collect).

FUNNY MONEY/*By Tom Leander*

Define 'Observe'

Many banking companies apparently find it hard to decide how to honor Dr. Martin Luther King's birthday.

After originally announcing it would open, Wells Fargo & Co. reversed itself three days beforehand and joined its two rivals in closing for the holiday.

Of California's big four banking companies, only Security Pacific Corp. chose to do business. All but a handful of its 557 retail branches opened on Jan. 15. A press release announcing the policy was headlined: "Security Pacific Observes Dr. Martin Luther King Jr.'s Birthday."

— **Sam Zuckerman**

* * *

Unsecured? No Way

As the news about Campeau Corp.'s filing for bankruptcy protection reverberated on Tuesday, four banking companies hastily sent out releases dissociating themselves from the mess.

That same day, Northern Trust Corp., Chicago, issued a terse statement on the PR Newswire: The company "is not a lender to Allied Stores Corp. nor to any Campeau entity." Shawmut National Corp., Hartford, Conn., issued a similar statement, followed the next day by Manufacturers Hanover Corp. and Bank of Boston Corp.

Federal Bankruptcy Court in Cincinnati had released a list, picked up Tuesday by newspapers and news wires, of Campeau's "unsecured creditors." The list included the four bank holding companies.

Northern Trust, Shawmut, Manufacturers, and Bank of Boston are not holders of Campeau bonds but are trustees for Campeau bondholders.

* * *

Big Stink

What do California hamburger franchises and banks with drive-up teller windows have in common? In the Los Angeles area, they're causing a smog problem, according to a California group that regulates air quality.

In Los Angeles, one of the nation's busiest traffic cities, idling cars waiting on lines to be serviced at drive-up windows are adding to the smog problem, according to the South Coast Air Quality Board, a watchdog body.

The group is considering a proposal to shut down the drive-up windows, said board member Lawrence Berg.

Another First

The North Carolina League of Savings Institutions may make grandiose claims to tout its conferences.

But it doesn't mess around with the facts.

Thad Woodard, the group's director, has send out a flier announcing the "first major secondary mortgage market conference held in the continental United States this year."

Before that conference kicks off on March 3, Mr. Woodard said, another secondary mortgage conference will have been held – in Hawaii.

* * *

The Duel Continues

A legal battle between the president of CenTrust Savings Bank and Florida Comptroller Gerald Lewis took a new turn last week, when CenTrust filed suit against the Miami law firm that represents the Comptroller's office.

David L. Paul

The suit alleges that Steel Hector & Davis is violating Florida bar rules because one of the firm's partners was formerly a general counsel at CenTrust and represented the bank on matters substantially related to the subject of the proceedings recently brought against CenTrust and David L. Paul, its president.

The comptroller has been seeking to oust Mr. Paul for allegedly spending $45 million in federally insured deposit for extravagant purchases, such as 15-carat gold nails used on a $7 million yacht owned by a company he controlled. Mr. Paul could not be reached for comment.

* * *

Scandal

Several bank-related incidents figure the 1990 *Scandal Annual,* a book released this week by St. Martin's Press. A survey of last year's most dubious behavior, the book includes the looniest bank robberies and chronicles several bank embarrassments.

And under the category, "Boy, Is That Dumb!" it recounts the following yarn:

A teller at the former Old National Bank of Washington in Spokane refused to serve a man who showed up at the teller window dressed in dirty construction clothes. The spurned man turned out to have $2 million on deposit at the bank and, in a fit of anger, transferred it to another institution the next day. □

Reader Forum

The *American Banker* welcomes points of view on issues of interest and importance to the banking industry.

Please direct them to Jeffrey Kutler, assistant managing editor, American Banker, One State Street Plaza, New York, N.Y. 10004. Letters may be edited for space.

For Bankers Who Mean Business
Commercial Real Estate
Every Tuesday in
AMERICAN BANKER

Mortgage Bank Companies Boost Wholesale Purchases

Marine, Fleet Embrace Strategy

By PHIL ROOSEVELT

NEW YORK — Mortgage banking companies, seeking to augment the loan originations of their retail branches, are increasingly buying production from other lenders.

Some of the industry's giants, such as Fleet/Norstar Financial Group, are using wholesale originations to feed their enormous servicing portfolios. But a number of smaller outfits also are embracing the strategy, saying it is potentially less costly than retail originations.

Wholesale production "is definitely a trend – and a big one," said Warren Lasko, executive vice president of the Mortgage Bankers Association of America.

Purchases Up 79%

Underscoring this, a group of 58 mortgage banking companies active in wholesaling boosted their purchases by 79% last year, according to a survey by Asset-Backed Capital Group, Cleveland. The companies plan to boost their wholesale production by another 22% this year.

Marine Midland Mortgage Corp., a unit of Marine Midland Bank, led the pack in 1989, buying $6 billion of loans, the survey found. Fleet Mortgage Corp., one of two Fleet/Norstar mortgage units, was No. 2 with $4 billion. Citicorp Mortgage Inc., St. Louis, was next with $3.1 billion.

Asset-Backed Capital defines wholesale originations to include virtually all types of loan purchases from correspondents and others. But the company excludes purchases of servicing rights separated from loans.

Growing Portfolios

The Fleet/Norstar units, when combined, purchased $6.6 billion of loans. That accounted for about 73% of the company's estimated $9 billion total of home loan originations. The total rose sharply from about $5 billion in 1988, helping boost Fleet/Norstar's servicing portfolio to $41 billion from $31 billion in 1988.

"When you have a big servicing portfolio, it takes quite a flow of new volumes to keep that portfolio growing," said Andrew D. Woodward Jr., president of Fleet/Norstar mortgage banking division. "The costs could be prohibitive to try to do this singly in a retail way."

Difficulties with Cost Control

Many analysts point to the mortgage market's volatility during the mid-1980s as the catalyst for the surge in wholesaling. As total volume rose to a record $454 billion in 1986 – and then dropped to $374 billion in 1988 – many lenders had difficulty keeping costs under control in large branch networks.

"The constant opening and closing of branches distracted our senior managers and drove up our costs," said Ronnie J. Wynn, president of the relatively small Colonial Mortgage Co., Montgomery, Ala., and president of the Mortgage Bankers Association of America.

As a result, he said, Colonial increased its wholesale originations to 65% of its total last year from 25% in 1988. That mix, he maintained, should prove less costly over business cycles in the long term, though industry data on wholesale costs is sparse.

Meanwhile, Margaretten & Co., a major retail originator, may start a wholesale operation early this year. The Perth Amboy, N.J.-based unit of Primerica Corp. said it would aim the effort at the large California market, where it has no branches.

"We believe the profits are not as good in wholesale as in retail, but wholesale is still profitable," said Felix Beck, chairman of Margaretten.

The rise in wholesale production has been helped by a steady increase in loan sellers. Some are are lenders who routinely unload a portion of their production to boost profits, while others operate essentially as brokers, said Thomas La Malfa, research head at Asset-Backed Capital.

Top Wholesale Originators
Purchase volume in billions of dollars

	1988	1989	1990*
Marine Midland Mortgage Corp.	2.8	6.0	6.6
Fleet Mortgage Corp.	1.7	4.0	3.8
Citicorp Mortgage Inc.	1.0	3.1	NA
Prudential Home Mortgage Co.	2.1	2.6	4.2
BancBoston Mortgage Corp.	1.1	2.6	3.0

* Projection by originator

Source: Asset-Backed Capital Group

Andrew D. Woodward Jr.

Fear of Losing Control

The increase in wholesaling "highlights the growing prominence of mortgage brokers, who are low-cost producers and need outlets," Mr. La Malfa said.

Still, not all mortgage banking companies are jumping into wholesale production. Many are holding back because of a fundamental fear of losing control over their loan production, said Mr. Lasko.

To some executives, he said, wholesale production means "handing over your destiny to someone you don't control."

The greatest risk, of course, is purchasing bad loans. As a result, Mr. Wynn and others stress that any entering the field must be prepared to redouble their quality control efforts. □

SECURITIES

Advantage Seen in Fannie Maes, Freddie Macs over Ginnie Maes

NEW YORK — Investors may have become less worried about a heavy selloff of mortgage-backed securities by troubled thrifts, but there are still lingering concerns.

Analysts at First Boston Corp. say that such concerns – coupled with jitters about real estate – have made certain Fannie Mae and Freddie Mac securities into bargains, compared with their Ginnie Mae cousins.

In a report this week, First Boston dismisses the concerns as more perception than reality. The report advises investors holding the Ginnie Maes, or securities of the Government National Mortgage Association, to sell those and buy Fannie Maes, or securities of the Federal National Mortgage Association, and Freddie Mac, or the Federal Home Loan Mortgage Corp.

First Boston bases its case mainly on securities with coupons slightly below current coupons. For example, the yield spread of Ginnie 8s over Treasuries – adjusted for prepayment risk – tightened to about 77 basis points early this week from 90 points in mid-December, First Boston says. But this "option adjusted" spread for Freddie Macs diminished much less rapidly, to 94 basis points from 100.

Andrew Carron, First Boston's director of mortgage research, said in an interview that investors may be concerned about the federal government liquidating whole mortgages held by insolvent thrifts. Loans held by thrifts are more likely to be sold as Fannie Maes and Freddie Macs than as Ginnie Maes, he notes. And investors may think the thrifts already have sold mortgages with higher coupons.

How Much Liquidation?

The Resolution Trust Corp. indicates that thrifts currently under its wing hold about $40 billion of whole loans. But, Mr. Carron noted, it is unclear how much of that will be liquidated and how much will meet the criteria for securitization through Fannie Mae and Freddie Mac.

Credit concerns may also be influencing the relative spreads among the three types of securities, First Boston says. Recent press accounts about deteriorating real estate markets have focused on pending government studies on the capital adequacy of Fannie Mae and Freddie Mac.

"Some investors perceive that if Congress is looking into this, there must be a problem," Mr. Carron said. "What is not well understood is that Congress is concerned about risk to the government, not risk to the investor."

Fannie and Freddie securities, he noted, carry the implicit backing of the government.

— Phil Roosevelt

TALKING *markets*

Who Won, Lost Market Share? It's Debatable

NEW YORK — Big, nationwide mortgage originators that want to gauge their 1989 volume against "the market" may have a tough time: Analysts differ widely on the market's own volume last year.

Depending on who is talking, home mortgage originations by all lenders fell as much as 10% from 1988 or rose by as much as 7%.

As a result of such divergence, "It's well nigh impossible to tell what your market share is with any precision," says Fred B. Koons, president of Chase Home Mortgage Corp. of Tampa, Fla. His own bet is that the market was flat to slightly down.

HUD's 9-Month Estimate

Many mortgage specialists rely on the Department of Housing and Urban Development, which provides monthly estimates of the total market, based on volume levels at a sample of lenders. So far, HUD's 1989 estimate covers the nine months through September: down 13% from the year earlier period, to $253.6 billion.

Based on that count, the full-year total should be $335 billion, down from $374 billion for 1988, says John Savacool, housing economist at the WEFA Group of Bala Cynywd, Pa.

The Federal Home Loan Mortgage Corp. has a similar estimate: $340 billion. But the Federal National Mortage Association, though also using the HUD data, has come up with a higher number: $363 billion.

1986 Was The Peak Year

Of course, all of these estimates suggest that nationwide volume fell, at least by some amount, for the third year in a row. Originations peaked in 1986 at $454 billion, according to HUD.

But the Mortgage Bankers Association of America maintains that originations actually rose in 1989. Economists at the trade group estimate $390 billion of originations in 1989, up from their count of $365 billion for 1988.

"We're not trying to predict what the HUD number will be," said Richard Peach, the association's deputy chief economist. "Why would we want to do that? The HUD number is just one estimate, based on a sample."

Mortgage Firms Report Surge

Rather, Mr. Peach said, his group's totals are based on its own analyses of housing starts, home sales, home prices, and indications of refinance volume.

While observers have long raised questions about the HUD survey, attention recently has focused on the survey's findings about market share held by mortgage companies.

HUD has shown the share hovering around 20%, even as several large mortgage companies have reported surging originations. Sears Mortgage Corp., Riverwoods, Ill., for example, says its originations jumped to $3.1 billion last year from $1.8 billion in 1988 – a gain of 72%.

Not surprisingly, projections for total activity in 1990 also vary.

— Phil Roosevelt

Key Interest Rates

	Week ended 1/12/90	Week earlier 1/5/90	Year earlier 1/13/89
30-year fixed-rate mortgage	9.90	9.92	10.92
1-year adjustable-rate mortgage	8.39	8.40	8.65

Source: HSH Associates, Butler, N.J.

Secondary Market

	Price 1/17	Week's change	Yield	Week's change	Treasury spread	Week's change
Ginnie Mae 9%	97-25	-0-29	9.50	+0.16	+131	-2
Fannie Mae 9½%*	99-21	+1-16	9.63	+0.20	+143	+2
Freddie Mac 9½%	99-03	-0-21	9.64	+0.14	+144	-4

Yield: bond equivalent yield based on mortgage prepayment rates projected by Merrill Lynch. **Treasury spread:** the mortgage security yield minus yield on the current 10-year Treasury bond in basis points. (*)— Current coupon changed since last week.

Source: Merrill Lynch Mortgage Capital, New York

SMALL BUSINESS

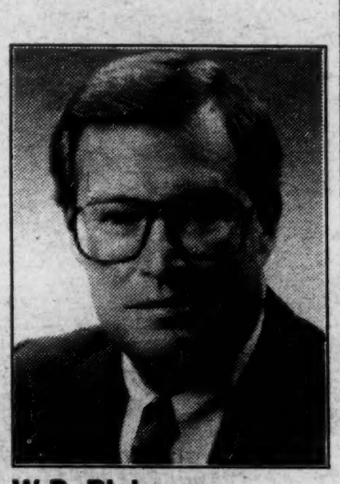
BancOhio Uses Big Bankers To Cultivate Small Clients

By LAURYN FRANZONI
Special to the American Banker

Many bankers are taking care of small business in their retail departments. But "in reality, small-business lending is just as difficult as lending to larger corporations, if not more so," says William P. Blakeway, senior vice president of BancOhio National Bank's Metro Ohio division in Columbus.

Rather than compartmentalizing its small-business specialty, BancOhio has taken an interdisciplinary approach, breaking down some of the cultural walls dividing retail and commercial bankers and creating a cadre of experienced small-business bankers covering a multistate territory.

BancOhio officials say the strategy is profitable and attracting attention from competitors. Outsiders are praising the bank for tailoring its strategy to various markets, differentiating itself from more rigidly structured competitors.



W.P. Blakeway

"Banks in Ohio are tackling small business on a local level, reacting to the market on a city-by-city basis," says Susan Wolf of Omega Consultants, a San Francisco company that helps bankers set sales strategies. "What BancOhio does is highly unusual because it overcomes the rivalry between retail and commercial structures, which often sinks the efforts."

BancOhio's operating plan is based on three key elements: a multistate team of some 250 retail and corporate lenders, a sophisticated computer data base, and an intangible called "Red Carpet Service." The structure, implemented two years ago, has resulted in an estimated 35% to 40% market share for the bank's business and professional lending group, known as B&P.

The group consists of nine officers based in the Columbus headquarters. They are experienced corporate lenders who coordinate much of the bank's marketing and service for small-business clients.

In addition, 60 offices in Franklin County have been divided into nine districts, each served by a district account officer. These officers support branch managers and staff by acting as the areas' senior retail lenders and as liaisons with the central B&P staff.

Web Covers Many Relationships

Throughout the BancOhio region of Ohio, Indiana, Pennsylvania, and West Virginia, a web links more than 130 branches and their people in developing small-business relationships. With all that territory to cover, Mr. Blakeway says, the district officers play an important role in speeding response to loan applications and insuring that the bank gets complete financial information from customers.

When a customer gets in touch with a branch officer, information flows upstream to the B&P group. Simultaneously, B&P officers are calling on prospects and serving existing accounts. The whole effort is tracked by a computerized account management system the bank designed to fit the small-business development plan.

Each January, all businesses in the market area are listed in the data base and assigned to bank officers based on existing customer contacts. Noncustomers are assigned to officers with an indication of how many calls will be made on that prospect that year.

Training Sessions Held

Along with their communications and coordinating functions, the district officers play an educational role for bank employees and customers. Mr. Blakeway says his liaison people hold training sessions such as mock credit committee meetings so that newer officers can practice making presentations and develop more confidence.

"The liaisons take a real interest in what's happening at the retail level and work to make sure the retail people are making inroads in their small-business markets," Mr. Blakeway says.

Back at headquarters, the B&P officers develop specialties, including ties with the Small Business Administration and state agencies. The bank has excelled in loans in conjunction with the Ohio Department of Transportation for short-line railroads.

Officers Given Credit

Mr. Blakeway, credits his individual officers – not the structure – for the plan's success. In 1989, business was up 20% over the level in 1988, its first year; B&P lending had virtually no chargeoffs and delinquencies of less than 0.5%.

"Most banks have very similar products," Mr. Blakeway says. "One thing we do is have better service and better people. We're relationship-oriented. We try to go beyond what the customers expect us to do by trying to anticipate their needs."

For example, the bankers are not above proposing solutions when customers' initial business plans do not pan out.

Mr. Blakeway warns against relegating small-business banking to second-class citizenship. He recalls that, when the Wendy's fast-food chain opened its first store, it banked with a neighboring BancOhio. Today, as an international chain, it's still with BancOhio.

Lauryn Franzoni is a freelance writer based in Springfield, Mo.

Braddock's Path: Campus to 'Consumer'

By JED HOROWITZ

NEW YORK — Twenty-seven years ago, Richard S. Braddock roamed the campus of Dartmouth College with his pals Louis V. Gerstner and Paul Binder, talking of history, politics, sports, and girls.

Friends say the word "consumer" never passed their lips.

Today, Mr. Braddock and Mr. Gerstner are giants of consumer marketing, the former as the new president of Citicorp and Citibank, the latter as chairman of RJR Nabisco Inc. Mr. Binder, founder and ringmaster of the Big Apple Circus, also knows a thing or two about pleasing the American consumer.

Mr. Braddock's elevation at Citicorp this week reflects the primacy of consumer banking both at the largest U.S. banking company and industrywide.

Rock, and Aura of Success

Back at Dartmouth, where Mr. Braddock entertained friends with early-'60s rock hits, there was no doubt he would be a success.

"Rick has always been very serious and intense but with a good sense of humor and a balanced sense of self," said John Farnsworth, a classmate and former banker who is an executive recruiter in San Francisco.

"The guy has a mind like a steel trap," said one subordinate, who asked not to be named. "He can move from one business to another and latch onto the key strategic issue quickly. He knows how to cut through a lot of bull in an aggressive but fair way."

A New Breed

Mr. Braddock, 48, is the new breed of banking leader who has never made a loan but manages large-volume, technology-intensive consumer banks. Through a combination of luck and drive – insiders say he lobbied hard to be named president – he helped put the consumer business in the forefront at Citicorp.

Two years ago, Citicorp chairman John S. Reed, himself a retail banking veteran, said he expected 65% to 75% of the company's earnings in the 1990s from the consumer sector.

In the fourth quarter of 1989, the consumer segment – which includes a U.S. branch network, an international group, private banking, and credit and charge cards – outperformed all other Citicorp businesses for the first time in recent memory.

Marketed Orange Drink

Mr. Braddock learned his craft at General Foods Corp., where he was a product manager for Tang, the powdered orange drink. He joined Citibank in 1973 as a vice president in its New York branch system.

Richard S. Braddock
Citicorp

Richard Kovacevich, president of Norwest Corp. and a former retail executive at Citicorp, said Mr. Braddock's style is thorough and methodical. "It's typical of someone with packaged goods experience," the Minneapolis-based banker said. "You do proper testing and research and make your findings about customer needs. Then you develop the product."

"John Reed deserves the credit for building the consumer business, but the execution of that strategy lies at the doorstep of Braddock," said James J. McDermott Jr., an analyst at Keefe, Bruyette & Woods Inc. "He's top-notch." □

Security Pacific to Exit Brokerage Business in 6 States

Continued from *page* **1**

supplies clearing and execution services to bank-owned brokerages and other broker-dealers. "You have to be lean, and you have to be conscious of cost."

Among banks, Security Pacific was a pioneer in the field when it founded Security Pacific Brokers in 1982. It was followed by Bank of America's purchase of Charles Schwab & Co., the nation's largest discounter, in 1983.

The trend gained momentum in 1984 when Security Pacific and Union Planters National Bank, Memphis, successfully defended their growing discount brokerage networks in a Supreme Court case brought by the Securities Industry Association. But it soon became clear that brokerage was not as attractive as many bankers first thought – a notion reinforced by Bank of America's 1987 decision to sell its unit back to Schwab's management.

Other banks that have sold or cut back their discount brokerage businesses include Chase Manhattan Bank, New York, and Fleet/Norstar Financial Group, Providence, R.I. Last summer, Marine Midland Banks Inc. sold 18,000 customer accounts to Quick & Reilly Inc., a New York brokerage house.

"It has just proven that [banks] really don't belong in the business," said Tom Quick of Quick & Reilly.

Still, some bank-owned brokerage businesses are reporting a return to profitability. Industry watchers point to such successes as Key Brokerage Co., owned by KeyCorp of Albany, N.Y.; Market Investment Services, owned by Union Bancorp., Los Angeles; and First Union Brokerage Services Inc., owned by First Union Corp.; Charlotte, N.C.

Fidelity Investments, which bills itself as the largest privately held mutual fund and discount brokerage company, will officially acquire the Security Pacific accounts Jan. 26. The Security Pacific branches are in the following 11 cities: Dallas; Houston; Florham Park and Garden City, N.J.; Memphis, Tenn.; New Haven, Conn.; New Orleans; and Jacksonville, Orlando, Ormand Beach, and Plantation, Fla. □

AMERICAN BANKER /Bank Rate Monitor's™

Consumer Money Index — *Auto, personal and credit card rates*

Market	CREDIT CARD 1/16/90	CREDIT CARD Change from: 1/9/90	PERSONAL 1/16/90	PERSONAL Change from: 1/9/90	AUTO 1/16/90	AUTO Change from: 1/9/90
New York	18.79	0.00	19.18	+0.17	13.79	+0.09
Los Angeles	19.33	0.00	20.00	0.00	12.12	-0.07
Chicago	18.85	0.00	17.10	0.00	11.96	-0.06
San Francisco	19.76	0.00	20.00	0.00	12.37	0.00
Philadelphia	18.00	0.00	13.85	-0.04	11.58	-0.01
Detroit	18.00	0.00	15.46	0.00	11.94	+0.01
Boston	17.36	0.00	17.44	+0.13	12.71	0.00
Houston	19.17	-0.13	15.75	0.00	11.61	-0.05
Dallas	18.19	-0.14	16.91	0.00	11.50	-0.14
Washington	18.71	0.00	16.14	0.00	11.33	-0.02
BRM Index	18.62	-0.02	17.18	+0.02	12.09	-0.03

The Bank Rate Monitor Index is the average of rates being charged by the 100 largest banks and thrifts in the nation's 10 largest markets on the dates indicated. Other rates quoted are the lowest and highest offered at the same institutions. Auto loan rates are for a $9,000, 48-month, new-car loan with a 20 percent down payment. Personal loan rates are for a $3,000 unsecured personal loan with a 24-month term. Credit card rates are fixed rates only and do not take into account differing annual fees or grace periods.

SOURCE: © Bank Rate Monitor, North Palm Beach, 33408
All inquiries: (407) 627-7330

LOWEST PERSONAL LOAN RATES	
Philadelphia National Bank	11.35%
First Pennsylvania, Philadelphia	11.40
Fidelity Bank, Philadelphia	12.40
HIGHEST PERSONAL LOAN RATES	
Manufacturers Hanover Trust, NY	24.00%
Bank of America, San Francisco	21.25
First Interstate Bk, Los Angeles	21.00
LOWEST AUTO LOAN RATES	
First City, Texas, Dallas	10.75%
First Pennsylvania, Philadelphia	10.90
Provident Natl Bk, Philadelphia	10.99
HIGHEST AUTO LOAN RATES	
Manufacturers Hanover Trust, NY	15.50%
Chemical Bank, NY	14.90
Chase Manhattan Bank, NY	14.90
LOWEST CREDIT CARD RATES	
Provident Inst. for Svgs, Boston	14.90%
St. Paul Fed Bank, Chicago	15.90
Murray Federal Svgs, Dallas	15.90
HIGHEST CREDIT CARD RATES	
World S&L, Oakland, Calif.	20.90%
Homestead Savings, San Francisco	20.90
Wells Fargo Bank, San Francisco	20.00

NOTE

ONLY THE FOLLOWING PAGES OF THIS

PUBLICATION HAVE BEEN FILMED

Cov. 1, Pgs: 2, 4, 12, 13, 14, 16